FX Positioning: Sterling heading to the neutral zone

CFTC data covering the 4-10 December period signals a pre-election drop in GBP shorts. With net positions at -9% of open interest, next week's report may show further moves - thanks to the UK election results - towards neutral GBP positioning. Elsewhere, NZD short squeezing continues

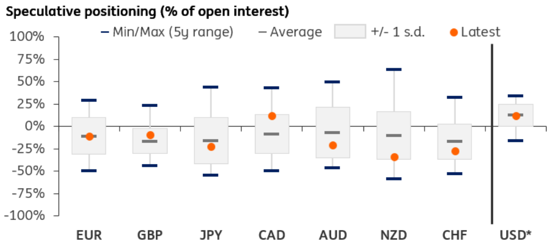
GBP shorts already trimmed before election

Speculative investors curtailed their net short exposure to sterling between 4-10 December, bringing the net short positioning below 10% of open interest for the first time since May. That's according to data published by the CFTC (Figure 1 below). It is key to highlight that the move (+4%

of o.i.) in positioning does not embed the election results, so expect the positioning indicator to advance further towards the neutral area in the next CFTC report.

These sort of dynamics likely spell the end of the sterling short-positioning “advantage” that has exacerbated the upside movements in the currency a number of times in the past few months. This does not mean, however, that a neutral positioning may in any way curb more upside in GBP; we continue to see the balance of risks for EUR/GBP tilted to the downside in the remainder of the year, even after the post-election move.

Figure 1 - Positioning overview



Currency (USD base)	Week Change	Latest net positioning	YTD Change
EUR	+1.2%	-10%	+1%
GBP	+3.9%	-9%	+18%
JPY	+0.3%	-22%	+22%
CAD	+0.6%	+12%	+40%
AUD	-0.7%	-20%	+6%
NZD	+3.8%	-34%	-41%
CHF	+0.6%	-28%	+5%

*Note: Aggregate USD positioning versus G10 FX. As of 10 Dec 2019 (data reported with a lag).

Source: CFTC, Bloomberg, ING

Kiwi dollar shorts continue to drop

The squeeze of the extended short NZD positions continued last week, as markets struck a fairly supportive risk tone while keeping expectations for RBNZ easing rather muted. NZD net positioning is now at -34% of open interest; it is still the biggest G10 speculative short but the correction in the past weeks has been sizeable (the gauge was at -51% at the end of November). As the phase-one deal agreed between China and the US likely shed market fears of another escalation in trade tensions, the sentiment on the Kiwi dollar may remain positive and we cannot exclude further short-squeezing ahead.

With the exception of the AUD (which is paying for the supported RBA easing expectations), all other G10 currencies saw their positioning advance (vs the USD) in the reference week. EUR/USD net positioning inched towards neutrality and is now at -10% of open interest. That's most likely due to the positive spill-over effect from cementing expectations around a Conservative win before the UK election. Similar to GBP, we may see further short-squeezing in the euro in the next report, albeit more limited in size compared to sterling.

CAD net positioning halted its 4-week-long drop thanks to a broadly weak-dollar environment and remains close to the upper limit of its 1 s.d. band (around its 5Y average). The low-yielders, JPY and CHF, also inched higher but the next report will likely see some shorts added to the two currencies as the combination of the market-friendly British vote and the phase-one deal dented safe-haven demand.

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